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STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE REGULATION
DEPARTMENT OF ENERGY, LABOR & ECONOMIC GROWTH
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# BILL ANALYSIS

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| **BILL NUMBER:** | House Bill 4070, as introduced |
| **TOPIC:** | Prohibit insurance companies from increasing premium during the policy period |
| **SPONSOR:** | Representative Tory Rocca |
| **CO-SPONSORS:** | None |
| **COMMITTEE:** | House Committee on Insurance |
| **Analysis Done:** | April 29, 2009 |

## POSITION

The Office of Financial and Insurance Regulation (OFIR) supports this legislation with amendments.

## PROBLEM/BACKGROUND

Michigan citizens are required to purchase automobile insurance if they drive a car and home insurance if they finance a home. Due to the cost of auto and home insurance in Michigan, consumers are encouraged to shop around for the best insurance deal by obtaining quotes from agents representing various insurance companies. Once the consumer submits the application and is approved for coverage, he/she pays a premium and a policy is issued. The company may adjust the premium at renewal, depending on whether the company's rates have been amended and/or if the policyholder's characteristics have changed. The consumer may choose to shop around for coverage before the current policy expires. However, some insurers may re-price the policy prior to the renewal date. When this occurs, the policyholder may be forced to pay an additional premium amount for the remainder of the policy period in order to maintain coverage.

## DESCRIPTION OF BILL

The proposed legislation amends the Essential Insurance Act (Chapter 21) of the Michigan Insurance Code by prohibiting an auto or home insurer from increasing a policy premium during the term of the policy, unless the initial premium was based on materially incorrect information provided at the time the policy was issued and paid.

## SUMMARY OF ARGUMENTS

**Pro**

Michigan consumers shop for home and auto insurance based partly on the cost of coverage. Once a consumer selects a company, they enter into an insurance contract for a certain amount of coverage, at a specified price, for a designated policy period. There is nothing currently in statute to prevent an insurance company from increasing the premium mid-term. If this happens, the policyholder may not have time to shop for other coverage, forcing them to pay the increased premium amount to avoid having a lapse in coverage. This could result in a financial hardship for some policyholders given the current economic climate. The proposed legislation would protect the policyholder from receiving a premium increase mid-term, unless it was determined that incorrect information was provided to the company, and would ensure that the agreed upon premium would remain in effect until the end of the policy period.

The Code requires insurance agents to provide consumers with the lowest available premium quote. Generally speaking, insurers train their agents to accurately price policies and they are bound to honor quotes made by their appointed agents. The proposed legislation would ensure that insurance companies honor the quotes made by their agents and would protect consumers from possible unscrupulous sales tactics.

**Con**

Insurance companies may seek premium adjustments mid-term if a vehicle is added to the policy or if significant home improvements are made during the policy term to ensure that the premium is based on the level of risk that the policyholder represents to the company. In these cases, insurers, should not be prevented from adjusting the premium. The proposal should be amended to address these concerns.

The proposed language would only pertain to those policies written on an individual basis under Chapter 21 and would not affect group policies written under Chapter 24 of the Michigan Insurance Code. Group policies offer a lower premium to those individuals who belong to a specific group such as AARP or a credit union and are becoming more prevalent in the marketplace. Similar amendments should be made to Chapter 24.

## FISCAL/ECONOMIC IMPACT

OFIR has identified the following revenue or budgetary implications in the bill as follows:

(a) To the Office of Financial and Insurance Regulation:

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| Budgetary: | OFIR will incur additional expense to inform consumers of their rights in regard to premium increases and to monitor the insurance industry to ensure compliance with the new requirements. |
| Revenue: | |
| Comments: | |

(b) To the Department of Labor & Economic Growth: None known.

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None known.

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None known.

Comments:

## OTHER STATE DEPARTMENTS

None known.

## ANY OTHER PERTINENT INFORMATION

This proposed legislation is similar to legislation that was introduced in a previous legislative session.

## ADMINISTRATIVE RULES IMPACT

The proposed legislation would amend the Michigan Insurance Code. The OFIR does have general rulemaking authority under the Insurance Code, 1956 PA 218.

Ken Ross
Commissioner

4-29-09
Date